

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 99-610

November 17, 1999

MAINE PUBLIC SERVICE COMPANY
Application for Approval of a Decrease
in Capital (\$910) (500,000 shares of
Common Stock)

ORDER APPROVING
REDUCTION IN CAPITAL

WELCH, Chairman; NUGENT & DIAMOND, Commissioners

On August 31, 1999, Maine Public Service Company (MPS or Company) filed with the Commission its request for approval to decrease its common equity capital by up to 500,000 common shares over a period of five years. This Order approves the Company's request.

In the aftermath of the divestiture of its generation asset portfolio, MPS seeks to achieve a "more just and reasonable" capital structure by repurchasing common shares over time. In the absence of doing so, MPS projects that it would have a capital structure with a common equity component in excess of 55%.¹ MPS also notes that approval will allow it to meet the provisions of the proposed Stipulation in its *Maine Public Service Company, Investigation of Stranded Costs, Transmission And Distribution Utility Revenue Requirements, And Rate Design of Maine Public Service Company*, Docket No. 98-577, where the parties have agreed that MPS be allowed a capital structure that includes a 51% common equity ratio. MPS acknowledged that repurchasing 500,000 common shares at current prices (roughly \$17.50 per share recently) would reduce the Company's common equity ratio to roughly 46% of total capital, but that it does not intend to go below a 51% common equity ratio in the foreseeable future. Finally, the Company requests that it be allowed five years to complete its share repurchase program.

We find MPS's request to be appropriate for several reasons. Most importantly, since common equity is the most costly source of investment capital for a business, rebalancing the Company's post-divestiture capital structure is consistent with the interests of its ratepayers believe it will reduce MPS's weighted average cost of capital. Whether or not the Stipulation in Docket No. 98-577 is ultimately approved, we view a 51% common equity ratio more favorably than a 55% common equity ratio for ratemaking purposes based on our knowledge of capital structures that are customary in the electric utility industry. It is also reasonable to allow MPS the 5-year window it seeks, because it would permit MPS flexibility in choosing the most opportune times to reacquire its shares. We note, however, that open market purchases are but one avenue open to MPS for the

¹ See LaPlante Direct Testimony in Docket No. 98-577.

reduction of its common equity ratio. During periods of relatively high stock prices, other mechanisms may be more attractive from a cost standpoint.

In approving this request, the Commission does not imply approval of the Company's current or projected capital structure or its current or projected cost of capital for ratemaking purposes. Furthermore, this Order does not limit or restrict the powers of the Commission in determining a capital structure or cost rate in future proceedings (although this will be settled for the near term either through the approval of the proposed Stipulation or a litigated conclusion in Docket No. 98-577). Finally, we intend to review MPS's specific stock repurchases, particularly in any instances where the purchase price substantially exceeds book value.

Accordingly, we:

O R D E R

1. That Maine Public Service Company is authorized to repurchase up to 500,000 of its common shares over a period of five years from the date of this Order.
2. That Maine Public Service Company report its doings pursuant to this Order to this Commission not less than annually.
3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 17th day of November, 1999.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR:

Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.